THE OMBUDSMAN

STATEMENT OF ACCOUNTS
FOR THE YEAR ENDED
31ST MARCH 2004

AUDITORS’ REPORT TO THE OMBUDSMAN

(established in Hong Kong pursuant to the Ombudsman Ordinance)

We have audited the accounts on pages 2 to 9 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of The Ombudsman and the auditors

The Ombudsman Ordinance requires The Ombudsman to prepare accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by The Ombudsman in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of The Ombudsman, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the accounts give a true and fair view of the state of affairs of The Ombudsman as at 31st March 2004 and of its surplus and cashflows for the year then ended.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 24th May 2004

THE OMBUDSMAN

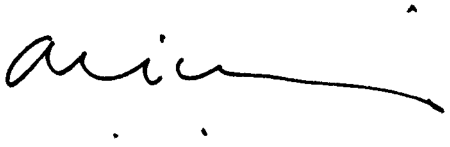
INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 31ST MARCH 2004

	Note	2004 HK$	2003 HK$
Income			
Government subventions		93,230,836	112,534,921
Amortisation of Government subventions	7	3,379,576	3,359,677
Interest income on bank deposits		925,910	1,225,544
Other income		11,889	3,601
		97,548,211	117,123,743
Expenditure			
Operating expenses		63,946,230	86,527,214
Surplus for the year	3	33,601,981	30,596,529
Accumulated surplus brought forward		52,963,626	22,367,097
Accumulated surplus carried forward		86,565,607	52,963,626

THE OMBUDSMAN

BALANCE SHEET
AS AT 31ST MARCH 2004

	Note	2004	2003
		HK$	HK$
Non-current assets			
Fixed assets	6	96,458,418	100,291,309
Current assets			
Deposits and prepayments		1,054,590	790,574
Interest receivable		28,752	401,761
Bank balances and cash		93,735,836	74,726,592
		94,819,178	75,918,927
Current liabilities			
Other payables and accruals		2,359,296	17,897,370
Contract gratuity payable		3,900,222	2,070,289
Government subventions - current	7	3,392,470	3,438,190
		9,651,988	23,405,849
Current assets		85,167,190	52,513,078
Net assets		181,625,608	152,804,387
Represented by:			
Accumulated funds		86,565,607	52,963,626
Non-current liabilities			
Contract gratuity payable		1,994,057	2,987,646
Government subventions – non-current	7	93,065,944	96,853,115
		95,060,001	99,840,761
		181,625,608	152,804,387



The Ombudsman

THE OMBUDSMAN

STATEMENT OF CHANGES IN FUNDS
FOR THE YEAR ENDED 31ST MARCH 2004

	2004	2003
	HK$	HK$
Total funds as at 1st April	52,963,626	22,367,097
Surplus for the year	33,601,981	30,596,529
Total funds as at 31st March	86,565,607	52,963,626

THE OMBUDSMAN

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31ST MARCH 2004

	Note	2004 HK$	2003 HK$
Net cash inflow from operating activities	8	17,706,437	36,542,032
Investing activities			
Interest received		1,298,919	875,716
Purchase of fixed assets		-	(26,156,899)
Government subvention received for purchase of fixed assets		3,888	26,314,107
Increase in bank deposits with original maturity over 3 months		(29,570,000)	(52,800,000)
Net cash outflow from investing activities		(28,267,193)	(51,767,076)
Decrease in cash and cash equivalents		(10,560,756)	(15,225,044)
Cash and cash equivalents at 1st April		12,726,592	27,951,636
Cash and cash equivalents at 31st March		2,165,836	12,726,592
Analysis of balances of cash and cash equivalents:			
Bank balances and cash		93,735,836	74,726,592
Less bank deposits with original maturity over 3 months		(91,570,000)	(62,000,000)
		2,165,836	12,726,592

THE OMBUDSMAN

NOTES TO THE ACCOUNTS

1 Status

The Ombudsman was established as a corporation sole by statute on 19th December 2001. The functions of The Ombudsman are prescribed by the Ombudsman Ordinance.

2 Principal accounting policies

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of preparation

The accounts have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA").

(b) Income recognition

Subventions from Government and other income are accounted for on an accruals basis.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(c) Property and equipment

The Ombudsman, as a non-profit making organisation, is exempt from compliance with the Statement of Standard Accounting Practice 17 "Property, plant and equipment" issued by the HKSA.

Property and equipment costing less than HK$1 million individually are written off in the year of purchase to the income and expenditure account.

Property and equipment costing over HK$1 million individually are stated at cost less accumulated depreciation and accumulated impairment losses and are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:–

Land and buildings	Shorter of unexpired period of the lease or expected useful life
Leasehold improvements	10%

(d) Government subventions

A government subvention is recognised, when there is reasonable assurance that The Ombudsman will comply with the conditions attaching to it and that the subvention will be received.

Government subventions relating to income are deferred and recognised in the income and expenditure account over the period necessary to match them with the costs they are intended to compensate.

Government subventions relating to the purchase of fixed assets are included in liabilities as deferred income and are credited to the income and expenditure account on a straight-line basis over the expected lives of the related assets.

2 Principal accounting policies (Continued)

(e) Employee benefits

(i) Employee leave entitlements
Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

(ii) Pension obligations
The Ombudsman has established a mandatory provident fund scheme ("MPF Scheme") in Hong Kong. The assets of the MPF Scheme are held in separate trustee-administered funds. Both the Ombudsman and the employees are required to contribute 5% of the employees' relevant income. The Ombudsman's contributions to the MPF Scheme are expensed as incurred.

(f) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the income and expenditure account on a straight-line basis over the lease period.

3 Surplus for the year

Surplus for the year is stated after charging the following:

	2004 HK$	2003 HK$
Auditors' remuneration	25,000	15,000
Depreciation	3,375,688	2,844,497
Operating lease rentals - land and buildings	115,400	3,909,308
Property and equipment (costing less than HK$1 million individually) written off	373,820	9,374,164
Staff costs (Note 4)	51,615,540	62,934,318

NOTES TO THE ACCOUNTS

4 Staff costs

	2004 HK$	2003 HK$
Salaries and allowances	45,451,427	57,842,501
Contract gratuity	4,340,704	4,071,317
Pension costs - MPF Scheme	758,322	638,375
Unused annual leave	636,318	-
Other staff benefits	428,769	382,125
	51,615,540	62,934,318

5 Taxation

The Ombudsman is exempt from taxation of the Inland Revenue Ordinance in accordance with the Schedule 1A section 5(1) of The Ombudsman Ordinance.

6 Fixed assets

	Leasehold improvements HK$	Land and buildings HK$	Office furniture HK$	Office equipment HK$	Motor vehicle HK$	Computer equipment HK$	Total HK$
Cost							
At 1st April 2003	11,456,898	91,700,000	1	1	1	1	103,156,902
Price adjustment (Note)	(457,203)	-	-	-	-	-	(457,203)
At 31st March 2004	10,999,695	91,700,000	1	1	1	1	102,699,699
Accumulated depreciation							
At 1st April 2003	640,600	2,224,993	-	-	-	-	2,865,593
Charge for the year	1,083,188	2,292,500	-	-	-	-	3,375,688
At 31st March 2004	1,723,788	4,517,493	-	-	-	-	6,241,281
Net book value							
At 31st March 2004	9,275,907	87,182,507	1	1	1	1	96,458,418
At 31st March 2003	10,816,298	89,475,007	1	1	1	1	100,291,309

Note

The costs incurred for leasehold improvements are still under negotiation between the supplier and Government. Accordingly, the Ombudsman, by reference to the costs estimated by the Architectural Services Department of Government, has made a price adjustment to reflect revised costs.

THE OMBUDSMAN

NOTES TO THE ACCOUNTS

7 Government subventions

The amounts represent the funds granted by Government for the purchase of land and buildings and leasehold improvements and are recognised as income on a straight line basis over the useful life of the assets, which are estimated to be 40 years and 10 years, respectively.

	2004	2003
	HK$	HK$
Government subventions	96,458,414	100,291,305
Current portion of government subventions	(3,392,470)	(3,438,190)
	93,065,944	96,853,115

8 Reconciliation of surplus for the year to net cash inflow from operating activities

	2004	2003
	HK$	HK$
Surplus for the year	33,601,981	30,596,529
Interest income	(925,910)	(1,225,544)
Depreciation	3,375,688	2,844,497
Amortisation of Government subventions	(3,379,576)	(3,359,677)
Operating surplus before working capital changes	32,672,183	28,855,805
Increase in deposits and prepayments	(264,016)	(262,972)
(Decrease) / increase in other payables and accruals	(15,538,074)	6,905,014
Increase in contract gratuity payable	836,344	1,044,185
Net cash inflow from operating activities	17,706,437	36,542,032

9 Commitments for project costs

	2004	2003
	HK$	HK$
Contracted but not provided for	–	187,250

10 Approval of accounts

The accounts were approved by The Ombudsman on 24th May 2004.